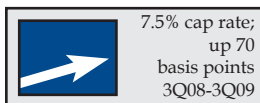


## BUYERS TARGETING NECESSITY-BASED STNL PROPERTIES

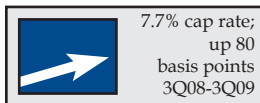
The recession brought a wave of store closures in the first half of this year, and while weakness among retailers will likely persist well into 2010, some emerging signs indicate the start of a recovery. The most recent retail sales data, excluding autos, offers promise; retail sales improved 0.5 percent from August to September, with most sectors recording modest gains. Still, sales fell nearly 5 percent on a year-over-year basis, and it will take several more months before retailers regain sound footing due to persistent weakness in employment and housing, tight credit conditions, and consumers' growing propensity to save. Some segments of the market continue to outperform, however, including necessity-based retailers such as grocery stores and drugstores, as well as dollar stores, all of which have posted strong results as consumers trim costs amid the softening economy.

With tenant demand for space soft, investment activity among single-tenant retail assets fell 45 percent year to date through September. In recent years, investors seeking to allocate exchange proceeds from apartments and other more management-intensive assets flocked to quick-service restaurants and drugstores. Reduced numbers of exchange sales and sale-leaseback transactions, however, should drag on investment activity through the first half of 2010. Prices have declined due to a less active buyer pool, and cap rates have increased. Thus far in 2009, cap rates have pushed up an average of 90 basis points, and additional rises ultimately will move some sidelined buyers into the market. Soft demand for lesser properties with at-risk tenants will remain weak through 2010, however, as investors and lenders will be hesitant to acquire or finance assets with a greater likelihood of going dark.

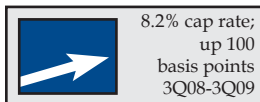
## SINGLE-TENANT RETAIL MARKET OVERVIEW



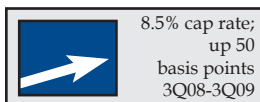
**Drugstores:** Walgreens and CVS Caremark continue to dominate the drugstore market, with healthy same-store sales growth driving store expansions at both companies. Investors are pursuing drugstore properties more cautiously than at the market's peak, driving a 70 basis point rise in cap rates from one year ago.



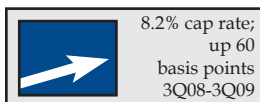
**Quick-Service Restaurants:** Fast-food operators are diversifying menus and adding higher-end items to capture some of the decline in traffic at traditional restaurants. Decreased exchange activity has slowed investor demand, pushing up cap rates 80 basis points during the past year.



**Casual Dining:** Steep job losses and falling household wealth have led many consumers to curtail visits to restaurants. In addition, hotel occupancy has dropped 670 basis points in the last 12 months as leisure and business travel has diminished, causing demand for casual dining restaurants to contract.

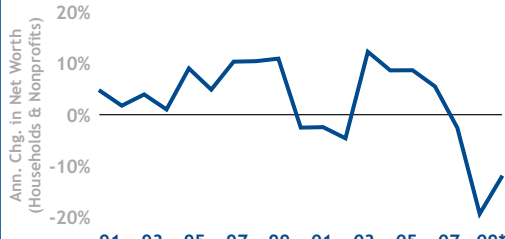


**Dollar Stores:** Dollar stores have become increasingly popular as consumers look to cut expenses, with many major chains reporting growing same-store sales and profits. Nevertheless, transaction velocity in the dollar store segment has slowed moderately over the past year, and cap rates have edged higher.



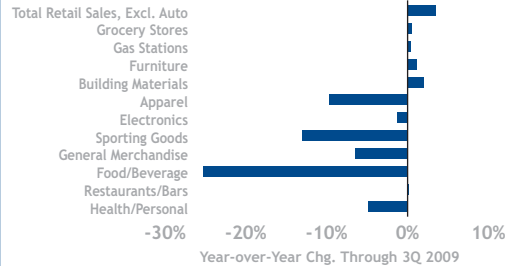
**Big Box:** Several high-profile bankruptcies flooded the market with vacant big-box space this year, although re-tenanting is gaining momentum. Newer big-box properties in outlying areas where household growth failed to materialize will likely remain largely vacant until the housing market recovers.

### Steep Declines in Household Net Worth Weighing on Retail Demand



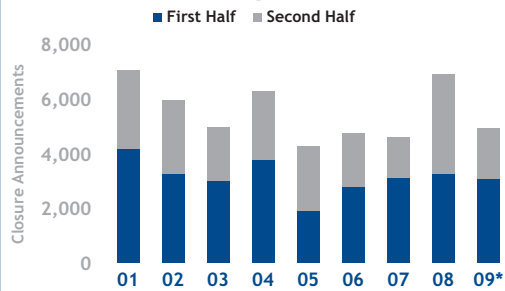
\* Year over Year Through 2Q 2009  
Sources: Marcus & Millichap Research Services, Economy.com

### Retail Sales by Sector



Sources: Marcus & Millichap Research Services, Economy.com

### U.S. Store Closing Announcements



\* Second Half Forecast  
Sources: Marcus & Millichap Research Services, ICSC

## DRUGSTORES

*The Industry's Two Major Players Continue to Expand; Cap Rates Rising*

At the end of the third quarter, CVS Caremark and Walgreens, the drugstore market's two largest companies, both opened their 7,000th stores. The companies have expanded by approximately 200 locations and 500 locations, respectively, during the past year through acquisitions and new openings. Demand remains strong; Walgreens reported just one month of declining year-over-year same-store sales since the onset of the downturn, while same-store sales at CVS Caremark increased 6.1 percent annually, as of the third quarter. With healthy outlooks for each chain, the drugstore industry should fare well through the rebound.

Despite strong operating fundamentals among the drugstore segment's market leaders, investor demand for these properties has waned from the heights of a few years ago. Cap rates have pushed into the mid- to high-7 percent range thus far in 2009, up from a low of 6.4 percent a few years ago. Initial yields for Rite Aid stores and regional drugstores vary from approximately 8 percent to nearly 10 percent. Transaction velocity for drugstores is down more than 35 percent year to date, although the median price has ticked up 8 percent to \$349 per square foot. CVS Caremark and Walgreens stores account for approximately 80 percent of all transactions closed since the start of the year, pushing the median price higher.

## QUICK-SERVICE RESTAURANTS

*Restaurants Expanding Menu Options, Upgrading Store Designs*

Fast-food firms are upgrading menu offerings and store layouts to attract spillover demand from declining customer traffic at casual dining restaurants. Earlier this year, McDonald's rolled out its line of Angus burgers, which are priced at approximately \$4. This move, in addition to the company's rollout of the small-format McCafé coffee shops in more than 10,000 U.S. restaurants, is an attempt to increase sales per customer visit. Early in the fourth quarter, Burger King announced plans to remodel all 12,000 of its locations over the next few years. According to the company, average same-store sales increase 12 percent to 15 percent following renovations.

Sales activity among quick-service restaurants dropped off approximately 30 percent in the first nine months of 2009. The median price held fairly steady, declining just 2 percent to \$431 per square foot, even as transaction velocity slowed. Buyers are seeking higher initial yields; cap rates increased 80 basis points on average to the mid-7 percent to low-8 percent range during that time. With fewer deals getting done than in recent years, quick-service restaurants, particularly those with national-brand tenants, will remain popular with investors. Activity in these assets will likely be among the first to gain momentum due to lower sales prices, making them easier to finance than larger properties such as drugstores and grocery stores.

## CASUAL DINING RESTAURANTS

*Recession Continues to Drive Slower Sales; Discounts Used to Attract Customers*

Sales at casual dining restaurants continue to slow due to the slumping economy as consumers attempt to cut costs by limiting the number of meals eaten away from home. IHOP and El Torito have attempted to spark demand with "kids-eat-free" promotions, while T.G.I. Friday's and Chili's Grill & Bar have offered \$5 and \$7 lunch menus to attract greater daytime foot traffic. Despite the soft sales data, the industry's outlook is beginning to improve. Earnings at Darden Restaurants, which owns Olive Garden and Red Lobster, among other chains, beat market expectations, despite a 2.3 percent decrease

in sales from continuing operations. In addition, the National Restaurant Association's expectations index recently reached its highest point since early summer, providing a cautiously optimistic outlook for early 2010.

The extended decline in restaurant sales has led to greater caution among lenders and investors, driving a 25 percent drop in transaction velocity thus far in 2009. Cap rates vary considerably based on location, the strength of the parent company or franchisee, and tenant quality, but current cap rates average in the low- to mid-8 percent range, approximately 100 basis points higher than in 2008. The median price has slipped 17 percent year over year to \$232 per square foot.

## DOLLAR STORES

*Cost-Conscious Buyers Driving Demand Among Deep Discounters*

While the recession has negatively impacted most retail categories, dollar stores serve as a notable exception as cash-strapped buyers increasingly purchase household items and some grocery offerings at these deep discounters. Late in the third quarter, Dollar General reported an 8.6 percent spike in same-store sales and announced plans to accelerate its rate of store openings and remodels to 500 and 450, respectively. In October, Dollar Tree recorded a 6.8 percent increase in same-store sales, and the company plans to open 80 locations by the end of 2010. Sales at Family Dollar stores open for at least one year rose 4 percent, and 200 new stores will come online in 2010, up from the completion of 180 stores this year.

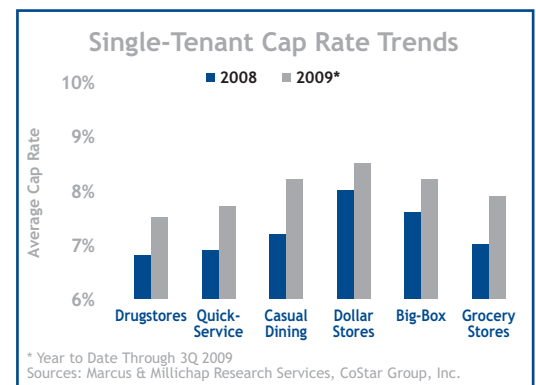
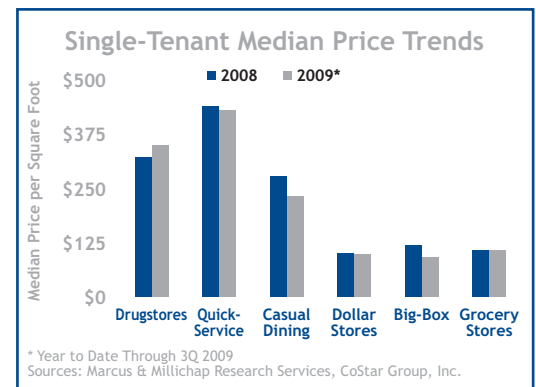
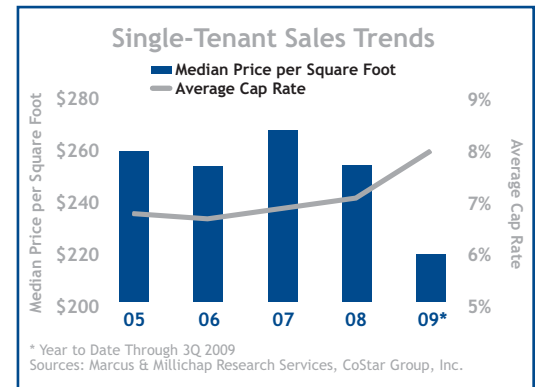
Strong operating performance among dollar stores has attracted buyers, with sales activity declining just 10 percent from year-earlier levels. Average cap rates have increased modestly to the mid-8 percent range, although many assets in secondary and tertiary markets change hands with initial yields above 9 percent. The median price has dropped just 2 percent year to date to \$98 per square foot due to strong sales and increased tenant profitability.

## BIG-BOX RETAIL

*Re-Tenanting of Vacant Locations Beginning to Take Hold*

Big-box retail made headlines in the first quarter of 2009 due to the bankruptcy filings of Circuit City and Linens 'n Things, but the segment is showing some early signs of recovery. Kohl's opened more than 30 stores in late September, nearly all of which were former Mervyn's locations in California, and the company plans to build as many as 25 stores in 2010. In addition, Kohl's is accumulating capital to move into vacant properties, which could drive sales activity and absorption next year. Recent earnings announcements from big-box retailers have beaten market expectations but still lag year-earlier levels. Costco, for example, reported a 6 percent profit decline year over year at the end of September.

Cap rates for big-box properties have increased by approximately 50 basis points to 70 basis points during the past year, with the average for deals closed in 2009 in the high-7 percent to mid-8 percent range. Sales velocity dropped 25 percent year to date through September, while the median price fell 31 percent to \$91 per square foot. Sales prices could creep lower in the coming quarters as investors target well-located, vacant big-box space for repositioning opportunities.



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## GROCERY STORES

*Supermarkets Outperforming as Cash-Strapped Consumers Eat More Meals at Home*

Consumers continue to alter spending patterns in response to the severity and length of the recession, focusing on necessity-based purchases and forgoing luxury or convenience items. As such, sales at grocery stores have declined at a far more modest pace than in other retail segments. Through September, sales at grocery stores ticked up 0.2 percent year over year, compared to a 5.7 percent annual decrease in all retail sales. With the economic recovery expected to be sluggish and consumers hesitant to accelerate spending due to battered household balance sheets, high unemployment and contracting credit, grocery stores should continue to outperform in the coming quarters.

While expansion among grocery chains will be more restrained in 2010 than during the periods of economic growth earlier this decade, some companies are taking advantage of the availability of vacant space caused by big-box closures to add locations. Grocers are choosing sites carefully, however, favoring properties in high-traffic urban areas, supermarkets with strong demographics and areas where obtaining construction permits is often a challenge, including metros in the Northeast. Wal-Mart continues to pose a significant competitive threat to traditional grocery stores, although the company has limited the expansion of its 15,000-square foot Marketside format, which was originally planned to compete with Tesco's Fresh & Easy stores.

Cap rates for supermarket properties have varied considerably thus far in 2009, with top assets changing hands in the low-7 percent range and lesser properties trading at 8 percent or higher. Sales velocity has declined 37 percent year over year, but the median price remains unchanged at \$108 per square foot.

## RECENT SALES HIGHLIGHTS

Property Name	City, State	Sales Price	Price per Sq. Ft.	Cap Rate
Home Depot	Bridgewater, MA	\$11,550,000	\$87	7.1%
Publix	Huntsville, AL	\$5,460,000	\$123	7.4%
Walgreens	Draper, UT	\$5,450,000	\$374	7.8%
CVS Caremark	Southaven, MS	\$5,308,659	\$401	8.5%
Pep Boys Auto	Talleyville, DE	\$5,150,000	\$258	7.8%
Advance Auto Parts	Elizabeth, NJ	\$3,135,000	\$448	8.2%
Sweet Tomatoes	Palm Harbor, FL	\$3,100,000	\$351	7.3%
TJ Maxx	Cerritos, CA	\$2,800,000	\$96	8.1%
Coco's	San Diego, CA	\$2,410,000	\$469	6.5%
Jiffy Lube	Lafayette, CA	\$1,396,000	\$296	8.4%
Burger King	Orange Park, FL	\$1,230,000	\$429	6.1%
Denny's	Atascadero, CA	\$1,220,000	\$316	5.8%
Dollar General	Jacksonville, FL	\$1,157,654	\$127	9.3%
McDonald's	Palmdale, CA	\$1,135,000	\$331	5.1%
Taco Bell	Schaumburg, IL	\$900,000	\$333	8.1%